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# SYSTEMS THEORY THROUGH A GENDER LENS

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ENTERING EMERGING MARKETS WITH IMPACT AWARENESS

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# SYSTEMS THEORY

While the gender gap represents \$28 trillion that could be added to global GDP by 2025, the pipeline of potential investments remains elusive for many funds. This is due to a range of factors including unconscious bias, a rigged system, lack of access to female networks, and lack of women in decision-making roles. These existing systemic issues are further exacerbated by COVID-19 and the uneven burden placed on women during the pandemic. As women-led businesses and women workforce-dominated industries, such as the service industry, were hit the hardest and women globally take on the majority of household care, stimulus packages often did not tackle existing barriers for women. Furthermore, impact measurement to capture the system-wide impact of investments in this area are lacking and need to be further developed to reduce the barriers to entry for additional funds. Without systemic changes, an individual fund's ability to deliver outsized returns from existing investment opportunities will not be sustainable and scalable to other institutions pursuing this asset class.

The potential to incorporate a systems approach into a fund structure represents new thinking on how to evaluate opportunities, support businesses, increase impact, measure impact, and shape entire markets to<sup>1</sup> reduce the gender gap. The Market Systems Development (MSD) approach seeks to identify root causes of market failure and work with other stakeholders in the market system to resolve these issues. While MSD has numerous case studies and examples of success addressing financial inclusion, results have lagged on gender inequality. A recent Marketlinks blog post entitled, *Gender And Market Systems Development: Why We Struggle And What Can Be Done To Tackle Common Challenges*, says past interventions "generally accommodates women's constraints but does not address them." Utilizing an MSD approach within a fund with a 100% gender lens would be an opportunity to test and showcase results that can be achieved when gender is mainstreamed in their approach. One area of needed testing is in measurement. To demonstrate results, the fund could create a baseline of ecosystem players and their level of activity supporting women-impact businesses, build on DCED measurement principles to develop a systems-level evaluation framework to quantify activity in the ecosystem (ie: # of players, type of work, % of work focused on women, intra-ecosystem interaction), and calculate change over a series of years.

Under a systems approach, work with one fund can influence and catalyze further investment from small to large-cap and local to global. Looking beyond an individual fund's direct results and impact from its investments, expanding the activity of other stakeholders by encouraging crowding in of business models focused on women, advocating replication of an investment and support model to new and existing funds, and breaking down systemic barriers prolonging the gender financing gap would result in greater impact than one fund could achieve alone. Additionally, these efforts are fractional compared to the cost of investment and technical assistance.

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Enclude, a Palladium company, recently released a report "Systems change: an emerging practice in impact investing", commissioned by the Open Society Foundations. "Recognising the complexity of issues facing our world today, this emerging practice of applying systems thinking to investing for positive change is gaining traction within the impact economy," explains Enclude in their new report. "Investors want to make sure – to the extent that they are able – that their efforts are not limited to addressing the symptoms of problems in the system, but rather to chipping away at the root causes within the system." Furthermore, "no investor alone can achieve positive impact on a 'system'; however, every investor can move from doing good individual deals to achieving significant positive impact results by 'stretching' her aperture of commitment and putting her decisions about capital into a systems perspective," says the report.

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Discovered Markets, a market intelligence & business design firm based in Washington, DC, utilizes a systems approach to advise businesses, funds, market development organizations, and government agencies with investment decisions in emerging markets. Discovered Markets works with new and existing fund partners to:

- Expand potential pipeline companies by identifying the interlinked and dependent impact that is caused by an investment decision
- Provide better management advice to portfolio companies by understanding the full cause and effects of business activities
- Increase impact across a sector or geography by influencing and catalyzing behavior of non-portfolio companies and other impact investors
- Accelerate future fundraising by creating a broader definition and measurement of impact

Some of our work can be seen [here](#).